PERSPECTIVES FROM THE BOARDROOM
TWENTY-ONE SUGGESTIONS FOR CORPORATE DIRECTORS

By: Gordon S. Macklin

Since there are not many training schools for prospective directors, here are 21 suggestions for you to offer new and prospective board members:

I. If a company looks, acts or smells suspicious, don't participate in the first place. The surest and most positive way to address potential liability is to avoid it. Many people with outstanding reputations have been badly damaged by affiliating as directors of unstable companies. Will Rogers once said "only buy stocks that go up. If they don't go up, don't buy them". If you're not comfortable with a company, don't join it. <u>Conversely, if a candidate, after doing his due-diligence inquiry has any reservations about your company, look elsewhere.</u>

II. <u>Be positive and proactive.</u> <u>Look for ways to be</u> <u>helpful,</u> such as making customer contacts and finding possible alliances and financing opportunities. While you should be ever alert for errors and problems, <u>your primary mission is to improve the corporation and that can usually be best done by working affirmatively and adding value.</u>

III. Work to establish camaraderie among directors. Some of the <u>greatest friendships you can form will be through working together on something in which you believe.</u> Good camaraderie among directors improves communications and encourages candor.

IV. Work to assure that the board is properly sized and controlled by a diverse group of non-management directors if ownership distribution is widely spread. (If control of the company is owned by a small group, most likely the board will be dominated by the larger owners.) <u>Avoid having directors who are related parties, e.g., lawyers, investment bankers and vendors who are beholden to management.</u> A strong D&O insurance program will help attract quality board members.

V. Insist on comprehensive reports including financial accounts from management. <u>But it takes more than numbers to describe a business, complete and open narrative reports from management are important.</u> Comprehensive written materials should be in each director's hands well ahead of the meeting <u>so they can be discussed rather than merely presented.</u>

VI. Encourage, indeed<u>, insist on a corporate planning process which includes both strategic and operating plans.</u> <u>This means far more than a simple budget,</u> and emphasizes the fact that it is just as important <u>to do the right things</u> as it is to <u>do things right.</u>

VII. Establish a workable corporate governance structure and stick to it. This means that, at bare minimum, there should be <u>an audit committee</u>, a <u>compensation committee and a nominating committee,</u> all made up of non-management directors. As mentioned before, outside control of a nominating committee in companies where majority ownership is held by just a few top managers and/or significant owners, may well be inappropriate, or at least, not necessary. In addition, it is important to have a schedule of board and committee meetings laid out in advance.

VIII. Retain credible outside independent auditors who recognize that the board as represented by the audit committee is their client. During the meetings with the auditors over the year, there should be executive sessions which emphasize the strong need for open and forthright communications between outside auditors and the board. Become familiar with the company's internal controls and satisfy yourself they are functioning properly. Meet regularly with the company's internal auditor (if it has one) and discuss internal controls and internal audits with him. Often the internal auditor gets the first sniff of problems.

IX. Become thoroughly familiar with the company's products and services, customers and potential new ones. The ultimate success of any business is dependent first and foremost on its effectiveness in serving its customers, and a strong commitment do so, reinforced by the board, will increase chances for success.

X. Establish procedures to monitor investments in research and development and the hoped-for results.

XI. With management's help and, if appropriate, a subscription or two to outside trade journals, keep abreast of the company's competitors and its relative position in its industry.

XII. On at least an annual basis discuss management succession in an executive session with the Chief Executive Officer. This discussion should cover all senior management positions, not just that of the CEO.

XIII. Request the CEO to have key executives give periodic reports on their activities to the board. This provides not only a deeper picture of what is happening but also a first-hand look at important participants and an acknowledgment of their status.

XIV. Arrange for periodic visits to company facilities. This not only gives a three-dimensional view of how the company functions, but also provides a hint as to the state of its capital equipment and, in some cases, even to housekeeping practices. In addition, a visit by a board to the facility is often a morale booster for the people working outside the home office.

XV. Encourage management to keep track of press coverage of the company and to send an unfiltered stream of new articles to each director.

XVI. If a company is publicly held, arrange for the directors to receive all key research reports on it and a summary of the views of each analyst providing coverage.

XVII. Have the compensation committee gather data on comparable companies and be sure that the consultants used recognize that the committee is their client. Make sure that any compensation program and system installed is tailored to achieving the corporation's objectives.

XVIII. Review extraordinary transactions in great depth and develop a record of careful analysis and considerations. If the decision-making process is thorough and comprehensive, generally the directors will not be liable for an honest mistake after exercising due care to be fully informed.

XIX. If the company is publicly held and interested in future mergers for stock, strive to have the shares sell at the highest sustainable price, not the highest achievable price. Efforts made to apply too much hype to the stock price can leave serious hangovers and often shareholder lawsuits. You will probably find that the markets are fairly efficient and an appropriate sustainable prices can be achieved with a high quality communications program aimed at the financial community.

XX. Remember that the director's job is to oversee and monitor management, not to manage. Boards hire managers to manage - that is their job.

XXI. As a corporate director you will have the opportunity , hopefully, to participate in the most exciting process in our economy -- the growth and prospering of a progressive company. This experience involves job creation, improving living standards through the offering of better products and/or services, and building capital. **In my view, there is no experience better in the free world; thus the final rule is to enjoy.**